The European Union Emissions Trading Directive

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The challenge:
Reduction of the global greenhouse effect

- Assumption: anthropogenic greenhouse gases are responsible for abnormal heating of the earth’s atmosphere
- Kyoto Protocol (1997) obliges the industrial nations to comply with binding reductions of emissions
- “Flexible mechanism” – emissions trading between states, clean development mechanism and joint implementation – allow the utilisation of emissions reductions in other countries in order to meet own obligations
  ➔ Emissions are attributed a price to be established under aspects of market economy
Kyoto and the European Union

- The European Union is, in addition to its member states, party to the Kyoto Protocol

- Commitment of EU / member states: reduction of emissions of greenhouse gases by at least 8 % below 1990 levels between 2008 and 2012

- “Burden-Sharing-Agreement” – distribution of obligation to reduce emissions in deviation from Kyoto
  - Germany: - 21%, Portugal: + 27%

- Reduction by way of emissions trading system – trading between individual emitters

Emissions trading in the EU

- Directive 2003/87/EC provides for the structures of the European emissions trading scheme
  - Permit requirement for greenhouse gas emissions, focused on certain types of installations (energy, steel, cement, mineral oil industry, paper) and CO₂
  - additional allowances for each metric tonne of CO₂ emitted by relevant installation
  - yearly obligation to surrender emissions allowances to competent authority, corresponding to actual emissions volume
  - monitoring and reporting requirements; penalties in case of infringements
National allocation plans

• Member States are responsible for reaching their individual emissions reduction goal
• National allocation plans (NAP) have to set up
  - how many allowances for allocation in general and in respect to individual operator, what rules apply to allocation?
  - allocation of 95% of allowances must be free of charge in 1st period (90% in 2nd period)
  - total quantity of allowances must be compatible with reduction obligation under Burden-Sharing-Agreement (“cap”)
  - considerable leeway to Member States with regard to the implementation

• NAP: numerous possibilities of conflicts as the amount of allowances is fixed
  - CO₂-emissions due to chemical processes without combustion
  - rewards for early action
  - installation with energy-efficient production methods
  - grandfathering or benchmarking
  - newcomers
  - banking

• Commission of EC has last word about NAP
  - must be consistent with Kyoto and burden sharing commitments
  - no discrimination to unduly favour companies or sectors